

Form 720 revised for use in paying PCORI fees

June 7, 2013

In brief

The IRS has revised Form 720, *Quarterly Excise Tax Return*, to add the Patient-Centered Outcomes Research Institute (PCORI) fee. The PCORI fee, which was imposed by the Affordable Care Act (ACA), applies to issuers of specified health insurance policies and plan sponsors of applicable self-insured health plans, including tax-exempt organizations that have such self-insured plans.

In detail

The Affordable Care Act (ACA) imposes a fee on health insurance policies and selfinsured health plans to help fund the Patient-Centered Outcomes Research Institute (PCORI). The fee is \$2 (\$1 for the first year) per year multiplied by the average number of lives covered under the plan or policy during the year. The fee is due for the seven plan and policy years ending on or after October 1, 2012 and before October 1, 2019.

The PCORI fee is required to be reported annually on the second quarter [*Form 720, Quarterly Excise Tax Return*](#), which is due by July 31 of the calendar year immediately following the last day of the policy year or plan year to which the fee applies. The IRS has just released the revised Form 720 and [instructions](#) to add this new fee

to Part II of the form. If Form 720 is filed only to report the PCORI fee, it should not be filed for the first, third or fourth quarter of the year. Deposits are not required for this fee, so issuers and plan sponsors are not required to pay the fee using the Electronic Federal Tax Payment System.

The PCORI fee for plan years ending October, November or December 2012 will be due on July 31, 2013.

Methods for counting covered lives

Sponsors of self-insured health plans must use one of the following three methods to determine the average number of covered lives.

Actual count method

The actual count method requires the plan sponsor to add the totals of lives covered for each day of the

year and divide by the number of days in the year.

Snapshot method

The snapshot method permits a plan sponsor to determine the number of covered lives on one or more dates during each quarter of the plan year, and divide that total by the number of dates on which a count was made. The dates used in each quarter must be within three days of the date that corresponds to the date used in the first quarter. The number of covered lives on these dates may be determined by actually counting the covered lives on that date, or by using a snapshot factor method that counts all participants with other than self-only coverage and multiplies that number by 2.35, and then adds the number of participants with self-only coverage.

Form 5500 method

The Form 5500 method is based on the annual report form filed for the plan for the plan year (provided that it is filed before the due date of the fee). The average number of lives covered under the plan for a plan offering only

self-only coverage is the sum of the total participants covered at the beginning of the plan year and the total participants covered at the end of the plan year, divided by 2. If the plan offers self-only coverage and other types of coverage (such as family coverage), the average number of

covered lives is the sum of total participants covered at the beginning of the year plus the total participants covered at the end of the plan year, as reported on the Form 5500.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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